

IDAHO FORECAST DESCRIPTION

The Forecast Period is the Fourth Quarter of 2002 through the Fourth Quarter of 2006

The state's economy was described as a train in the January 2003 *Idaho Economic Forecast*. This analogy also applies in comparing the current forecast to the previous one. Specifically, Idaho's economy is expected to leave the station for the recovery tracks later than in the previous forecast, and it will travel slower once it gets there.

There are two primary reasons for the softer forecast. First, new nonfarm employment and personal income data show Idaho was weaker than previously thought. For example, employment in the third quarter of last year was about 4,600 lower than the previously forecasted amount. Idaho nominal personal income was nearly \$400 million down from the previous estimate. This lowered the starting point for the new forecast. Second, it appears the previous U.S. economic forecast may have been a bit optimistic, so it has been lowered. For example, U.S. real GDP has been reduced 0.1% this year, 0.3% next year, 0.5% in 2005, and 0.8% in 2006.

Idaho nonfarm employment growth is lower than in the previous forecast, resulting in lower levels of employment in each year. In the current forecast Idaho nonfarm employment fell an estimated 0.7% in 2002, compared to the previous forecast of a 0.3% decline. Idaho employment is projected to rise 0.1% in 2003, 1.5% in 2004, 1.7% in 2005, and 2.0% in 2006. In the previous forecast this measure was anticipated to grow 0.9% in 2003, 1.9% in 2004, 2.4% in 2005, and 3.3% in 2006. As a result of this faster growth, Idaho nonfarm employment was anticipated to reach 615,397 in 2006. This is significantly higher than the current estimate of 594,621 for 2006.

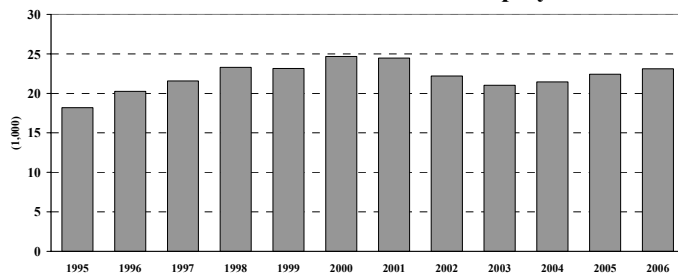
The Gem State's goods-producing employment sector is hardest hit in this forecast. In the previous forecast the number of jobs in this sector was expected to shrink slightly in 2002 then enjoy moderate growth thereafter. In the current forecast, Idaho goods-producing employment retreats sharply in 2003 (3.6% versus 1.1%). Part of this change reflects layoffs that have been announced since the previous forecast was published. Unfortunately, goods-producing employment is projected to continue shrinking through 2005 and post a marginal gain in 2006. As a result, Idaho goods-producing employment is 11,400 (10.0%) lower in 2006 than had been forecasted previously.

Idaho's services-producing sector is projected to fare better than the goods-producing sector, but not as well as was previously believed. Services-producing employment is forecast to increase 1.0% this year and about 2.1% annually in the remaining years of the forecast. This is slower than the original forecast where service sector job growth accelerated from 1.3% in 2002, to 1.9% in 2004, to 2.4% in 2005, and to 3.3% in 2006. In 2006, services-producing employment is estimated to be about 9,400 (1.9%) lower than the former projection.

The employment pattern holds for Idaho personal income. Specifically, Idaho nominal personal income is lower in the current forecast in 2003 and this gap widens over time. By 2006, it is about \$800 million (2.0%) lower than previously projected. The gap between real Idaho personal income is not as wide because the outlook for inflation is lower in the current forecast.

SELECTED IDAHO ECONOMIC INDICATORS

Idaho Electrical & Nonelectrical Employment



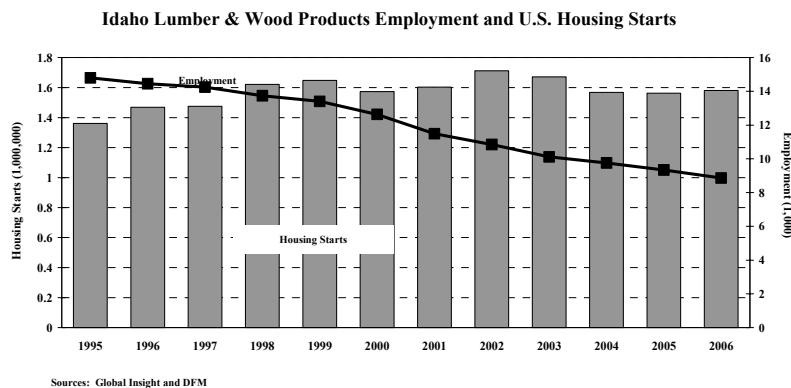
Electrical and Nonelectrical Machinery:

The state's largest manufacturing employment sector suffered a major blow this winter when its single largest employer, Micron, laid off around 1,100 workers in the Treasure Valley. Unfortunately, this is just one in a series of layoffs. Previously, approximately 500 jobs were lost when Jabil Circuit shuttered its two-year old Meridian manufacturing plant. In addition, layoffs by various other firms have cost this sector

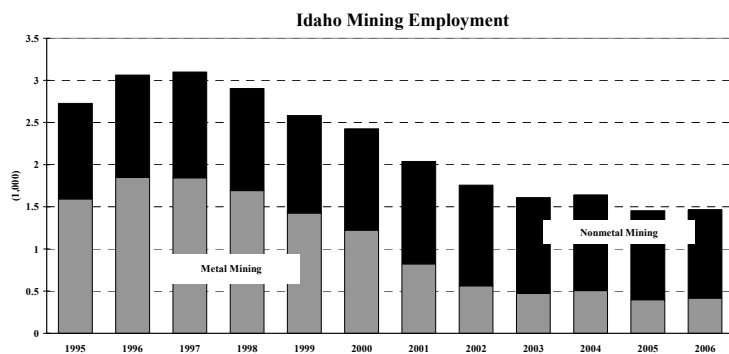
approximately 4,000 jobs during the current downturn. Company-wide, Micron reduced its work force by 10%, or about 1,800 employees. This move was part of the company's plan to reduce costs in response to the one of the most challenging periods of this young industry's history. Micron is the world's second largest manufacturer of computer memory products. Its primary competitors are Samsung, Infineon, and Hynix. A glut of memory products has caused their prices to plummet. For example, Semico Research Corporation reported the price of 256 MB DRAM (Dynamic Random Access Memory) fell from \$7.40 in the first quarter of 2002 to a projected \$5.00 in this year's first quarter. It also estimated Micron's market share fell slightly from 19.7% in 2001 to 18.5% in 2002. These factors have taken a toll on Micron's bottom line. The company has posted losses in nine straight quarters. Despite this protracted down cycle, Micron was able to avoid layoffs until this winter. The layoffs and other restructuring measures are part of the company's plan to shore up its bottom line and position itself for when the industry returns to health. There are signs the industry is poised for growth, but a return to the go-go years of the recent past is unlikely. During the 1990-91 recession, Idaho's high-tech sector added 2,100 jobs, a growth rate of almost 20.0%. It continued to expand through most of the 1990s. By 1995 it was the state's largest manufacturing employer, accounting for one out every four jobs. This growth was propelled by frenzied investment for software and computers. Specifically, from 1990 to 1999 real nonresidential investment in software grew 15.6% annually, while real computer investment surged 34.7% per year. Ironically, 1999 was the first year Idaho's high-tech sector employment shrank since 1986. While investment has not retreated it has slowed. From 1999 to 2002, real software investment has grown just 3.1% per year and investment in computers has risen just 11.0% annually. But over the forecast period real investment in software is forecast to rise nearly 10.0% per year and computer investment should increase about twice the pace of software. Another factor that could aid this sector is the U.S. Department of Commerce's decision to charge Hynix a 57.37% tariff on computer memory it sells in the U.S. This ruling was made in response to complaints the South Korean government was unfairly subsidizing Hynix. The tariff is being collected in an escrow account that will be turned over to Micron if the Department of Commerce's preliminary ruling is upheld. More importantly, if the tariff were made permanent it would effectively prevent Hynix from marketing its products in the United States, which would probably be the demise of Hynix. The loss of this company in a field crowded with competitors could ease supply, which in turn would boost prices. This would bode well for Micron. Another local company with its eyes on the future is Pocatello's AMI Semiconductor. The company has been slowly adding to its 2,500-person payroll despite the industry downturn. Idaho's electrical and nonelectrical sector's employment is expected to decline 5.2% this year, grow 2.0% in 2004, 4.5% in 2005, and 3.1% in 2006.

Lumber and Wood Products: The fortunes of the state's lumber and wood products sector has long been determined by the swings in the business cycle. Traditionally, this industry flourished during

periods of strong demand and retrenched when demand slackened. That is what makes this sector's current decline so frustrating. Idaho's lumber and wood products sector is losing jobs during a time when the U.S. housing industry is booming. The reason has little to do with demand side of the equation and almost everything to do with the supply side. There is a glut of lumber and wood products in the market.



This supply situation is keeping prices low despite healthy demand. Fueling this glut is the tidal wave of products that has been redirected to the red-hot U.S. market as other export markets collapsed. These low prices have squeezed many companies' profits to the point where they have had to curtail operations. For example, approximately 125 jobs were lost when the former Boise Cascade mill in Cascade, Idaho ceased operations in 2001. About 250 jobs were lost last year when the Emmett, Idaho mill was closed. Potlatch shuttered its Jaype Mill near Pierce the previous year, a move that cost about 215 high-paying jobs. A structural problem facing this industry is its chronic over capacity. One estimate shows this industry is already geared up to produce 20% to 25% more lumber than is being consumed in North America and Canada. The good news is the excess supply will eventually disappear. But the bad news is it will result from the anticipated closure of older and less-efficient mills. Unfortunately, mill closings have become an all-too-frequent occurrence in the West. *Random Lengths* recently reported that there were 337 sawmills, plywood plants, veneer mills, and board mills operating in Oregon, Washington, California, Idaho, and Montana, which was just over half the 663 that were in operation ten years ago. Part of this decline can be traced to the shrinking log supplies from federal forests. Like most of the region, the health of the Gem State's industry depends on an adequate supply of public timber. According to U.S. Department Agriculture, the total amount of timber harvested in Idaho fell from 1.8 million board feet in 1990 to 1.2 billion board feet in 2000, a 31% drop. These data also show that harvests from Idaho national forests fell an astounding 78% over this decade. Many Idaho producers have survived by adapting to changes occurring in the industry. For example, Potlatch Corporation announced it would spend \$2.6 million this summer to upgrade its St. Maries sawmill. These changes were deemed necessary to keep the 30-year old sawmill competitive. Under current pressures, Idaho's lumber and wood products employment is expected to decline from 10,845 in 2002 to 8,865 in 2006.



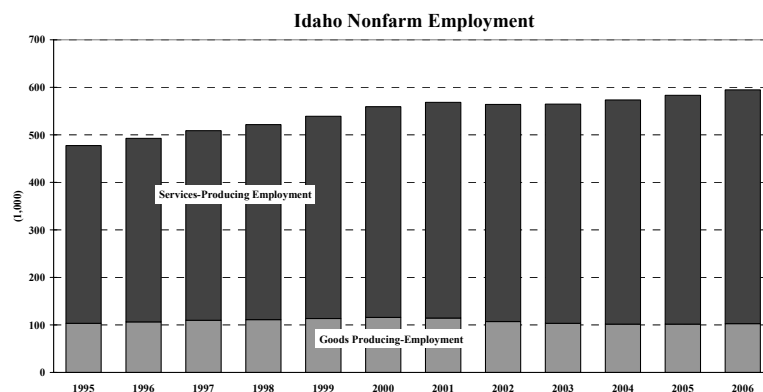
Mining and Chemicals: Idaho's mining sector is expected to enjoy a respite from falling employment in 2004. The state's mining sector suffered its fifth straight year of employment declines in 2002. It is projected to drop again in 2003. After peaking at about 3,100 jobs in 1997 it had less than 1,800 jobs in 2002. Most of the job losses were in the metal mining component, which shed over

1,200 jobs from 1997 to 2002. Idaho other mining employment fell from 1,843 jobs in 1997 to 1,194 jobs in 2002. As a result, as of 2001 there have been more people employed in the other mining sector

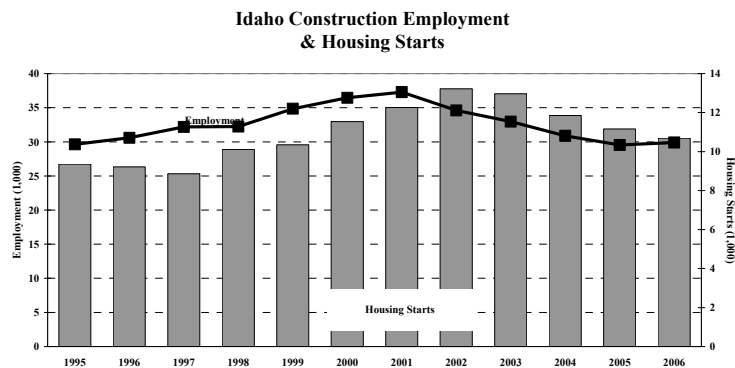
compared to the metal mining sector. Not all the news has been negative, however. Ledcor recently announced it was recalling 40 to 50 workers back to the Thompson Creek Molybdenum Mine. The move reflects improved molybdenum prices. Interestingly, this has not been the first time the company has resumed operations over the last year. Strong prices helped restart the plant in July 2002, but it was closed in November as prices eroded. The state's chemical sector has also fallen on hard times. Most notably, Astaris closed its Pocatello elemental phosphorus plant after operating for more than a half a century. The approximately 300 remaining employees and several hundred-construction workers lost their jobs when the plant permanently closed. The plant was a major employer in the community, and its high-paying jobs will be missed. Unfortunately, Astaris is not the only Gem State chemical manufacturer to fall on hard times. Kerr-McGee closed its Soda Springs plant due to the low price of vanadium. Idaho mining employment is expected to grow slightly in 2004, but decline in the other years. Chemical sector employment should grow marginally in 2005, but sustain losses in the other years of the forecast.

Services-Producing Industries:

The outlook for the state's gigantic services-producing sector has changed slightly since the previous forecast. It is still believed this sector will be the leading producer of jobs over the forecast period. In fact, it is anticipated to be the only sector producing jobs through 2005. These jobs will offset the expected contraction of goods-producing sector from 2002 to 2005. Although the services-producing sector is expected to continue to expand, its projected growth is slower than in the previous forecast. Specifically, services-producing employment is expected to advance 1.0% in 2003, 2.2% in 2004, 2.1% in 2005, and 2.1% in 2006. In the previous forecast the number of services-producing jobs was estimated to rise 1.3% in 2003, 1.9% in 2004, 2.4% in 2005, and 3.3% in 2006. As a result of the slower growth, services-producing employment is 491,927 in 2006. It was previously forecast to be 501,293 in 2006. Traditionally, the goods-producing sector determined the fortunes of the services sector. For example, local implement dealers suffer if farmers fall on hard times. However, the roles of the goods-producing and services-producing sectors are becoming blurred. For example, construction is classified as a goods-producing activity, but clearly is largely driven by activity in other sectors. As the economy evolves, many services-based industries have become the drivers. An example of this trend is the growing number of call centers in Idaho. The call centers are involved in a wide range of activities including sales, help lines, telemarketing, customer services, and market research. Call centers also include a wide variety of business sectors. These include manufacturing, transportation, communications, trade, finance, insurance, business services, and research and development. For example, Dell Computer recently opened a service center in Twin Falls. Unfortunately, these call centers are not immune from the vagaries of the business cycle and other factors outside their control. Center Partners, a call center with offices in several Idaho locales, announced it had lost AT&T Broadband as a customer. If a replacement for this client cannot be found, the company will be forced to lay off workers. Other businesses have also announced changes. Sears recently closed its Boise computer operations and is looking for a buyer for its credit operations. However painful, these setbacks should be viewed as temporary. The one thing that has not changed is Idaho's high quality labor force. It has been the reason call centers have been drawn to the state in the past, and it will be the key marketing tool for attracting businesses to the Gem State.



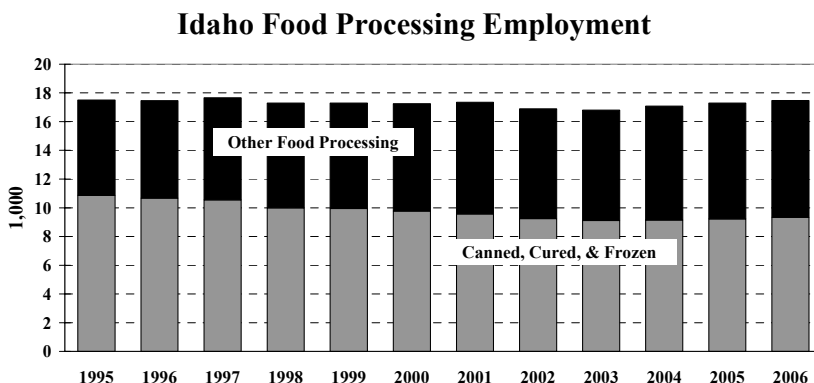
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Construction: Idaho's construction employment is anticipated to experience an orderly retreat from its record level of 37,273 in 2001. Before going further, it is useful to review the recent past to gain a perspective on the magnitude of the expected contraction. From 1988 to 2001, construction employment grew an average of 7.5% per year, which made it one of the state's fastest growing sectors. At this pace, the level of employment nearly

tripled from just fewer than 14,000 to 37,273. The strong demand for housing resulting from strong immigration into the Gem State fueled this employment growth. Housing starts surged from about 3,300 units in 1988 to nearly 12,800 units in 1994. Housing starts did settle down to about 9,400 units in 1995. Since then, total housing starts have hovered in the 9,000- to 11,000-unit range. Nonresidential construction also deserves credit for this sector's strong showing. Projects such as the Boise Towne Square Mall and the rebuilding of downtown Boise's infrastructure helped boost employment during the early years of the boom and provided an important cushion when housing starts dropped in 1995. Given the cooling economy, strained state and local government budgets, and slower population growth, both residential and nonresidential building are not expected to match their earlier strong performances. On the bright side, neither is construction projected to suffer a bust. One of the reasons for this is the state's demand and supply for housing is not as far out of balance as in other states, because Idaho builders were in catch-up mode during most of the expansion period. Thus, the state never developed a significant housing inventory surplus. Idaho housing starts are expected fall this year and next, then recover gradually in 2005 and 2006. Idaho construction employment is forecast decline 4.7% in 2003, 6.3% in 2004, 4.4% in 2005, and rise 1.3% in 2006.

Food Processing: Two large food processors have fallen victim to the weak market for frozen French fries and other processed potato products. Food processing giant McCain Foods USA announced it was reducing the number of shifts its Burley plant this June. As a result, 125 workers are expected to lose their jobs. Company officials stressed this was a temporary move. J.R. Simplot Company



announced about 50 employees at its Heyburn plant will be let go in May. This layoff comes a year after the company announced it would close the plant in April 2004. Company officials had hoped to keep three specialty lines operating until the shutdown, but soft market conditions led to the closing of one line. There will be approximately 265 workers left at the plant after the May 2003 layoff. Some of the domestic weakness is due to concerns over the war with Iraq. If American consumption contracts, it would be consistent with what occurred during the previous Iraqi conflict. These two setbacks have also led to speculation that their markets are undergoing a structural change. One of the biggest threats comes from foreign producers, primarily Canada. It has been reported that the U.S. became a net

importer of French fries in 2000. This trend is expected to continue through 2005 as additional Canadian capacity comes on line. Unfortunately, these two companies were not the only ones to announce layoffs. Eddy's Bakery announced 129 bakery workers would also lose their jobs this May when the company relocates its baking operations to Henderson, Nevada. About 60 transport drivers and driver-salesmen will continue working for the bakery's parent company, Interstate Bakeries Corporation. However, not all the news has been bad. Part of the groundwork for this section's future is being laid in southeastern Idaho. Grupo Modelo started work on its new \$64 million plant in Idaho Falls. The plant will have the capacity to process 100,000 metric tons of barley malt per year for the Mexican brewing company. Significantly, the company chose Idaho as the location of its first operations outside of Mexico. Idaho food processing employment is forecast to dip 0.5% this year, rise 1.6% next year, 1.2% in 2005, and 1.1% in 2006.